



Investment Office

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March 16, 2009

AGENDA ITEM 10c

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Global Equity Delegation for Environmental Strategies Allocation
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Increase the policy range for Global Equity environmental strategies to 0 percent to 2 percent of Global Equity assets. Wilshire Associates' opinion letter is shown in Attachment 1.

IV. ANALYSIS:

Background

At its April 16, 2007 meeting, the Investment Committee approved the Global Equity Consolidated Delegation. The delegation, shown in Attachment 2, includes a policy range for public market environmental strategies of 0 percent to 0.5 percent of Global Equity assets. As of December 31, 2008, CalPERS' five public equity environmental managers comprise 0.46 percent of Global Equity assets, or \$331 million.

At the August 18, 2008 Investment Committee meeting, staff presented the Environmental Manager Annual Review. A copy of the agenda item is shown in Attachment 3. In the item, staff reported that it would be considering the possibility of additional internal and external environmental strategies and an increase in the current Global Equity delegation policy range for environmental strategies would be needed.

Increase in Policy Range

Staff is recommending that the Global Equity Consolidated Delegation be revised

to 0 percent to 2 percent from the current 0 percent to 0.5 percent. The 2 percent upper limit equates to \$1.4 billion based on December 31, 2008 market values.

The reason for the recommendation is to allow for a more meaningful percentage allocation to public market environmental strategies if compelling opportunities are identified. Staff is not recommending any additional strategies at this time and any new internal or external portfolios would be brought to the Investment Committee for approval.

The annual review of the current environmental managers will be presented at the August 2009 Investment Committee meeting. The current managers, as a group, have outperformed the composite benchmark by 325 basis points for the one year ending January 31, 2009, and have outperformed by 41 basis points from the February 1, 2006, inception date of the program.

Staff views the additional allocation as providing room for additional public equity environmental strategies if they are the most compelling opportunities within Global Equity. The increased upper limit of the range is not viewed as a firm commitment to a particular dollar allocation to these strategies.

V. STRATEGIC PLAN:

This agenda item is consistent with Strategic Plan, Goal VIII, to manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

There are no costs associated with this item.

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